The WTO Is in Trouble

By Alan Oxley

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Free trade agreements (FTAs) are popping up everywhere. In its first term the Bush Administration got four through Congress and started another three. China is now negotiating FTAs with Chile and New Zealand. Not everyone thinks they are good. Peter Sutherland, Chairman of BP Amoco, has just told the Director General of the World Trade Organization (WTO) they threaten the WTO.

The WTO is in trouble, but not because of that. The core value in the WTO – everybody liberalizes for the common good – is under threat. At least half the membership of the WTO no longer think this is what the WTO is for.

Sutherland, himself a former head of the WTO, was commissioned by Dr Supachai, the Director General of the WTO, to lead a panel of bluechip trade experts to assess the WTO on its tenth anniversary. It included Jagdish Bhagwati from Columbia University and John Jackson at Georgetown University.

Bhagwati has a gripe about Free Trade Agreements, well grounded in the lore of trade liberalization. They are a second class form of trade liberalization. The global model of liberalization fostered by the WTO produces superior results. It moves economies more quickly into open world markets and at less cost and with higher returns. FTAs are patchworks and can even be counterproductive and retard growth.

Sutherland's report could lead us to think it is the FTAs which have undermined this core value. The cause is different. It is a bigger problem. The fact the WTO has done nothing for six years should be alerting us to that.

From the time the GATT entered into force, there has always been someone who wanted to exempt some industry from the obligation to liberalize. The GATT always allowed some exceptions. Any system of law has to provide for exceptions. The key to maintaining the integrity of any system is to ensure exceptions to them are clearly just that – exceptions.

Very early in the history of the GATT, the United States sought special exemptions for some agricultural industries. When the economic integration began in Europe with the Treaty of Rome in 1958, it sought exemption as well for its farm sector. A few years later, the US and some Europeans sought exemption from the obligation to liberalize from trade on textiles. About the same time, developing countries started mounting a case that they be exempted from the application of the core value. They wanted preferential access to the markets of rich countries, but did not want to liberalize themselves.

In the sixties Europe and the US liberalized and trade expanded. Manufactures was the high growth area of trade. The exceptions, particularly for agriculture, did not threaten the dominant core value, although they were always hotly contested.

Rich countries began to give poor countries preferential access to their markets (although usually not on products where they were serious competitors) without demanding they liberalize as well. It was seen as a form of "trade charity".

When the reformist Uruguay Round of trade negotiations concluded in 1994, there was general satisfaction that the tide against exceptions was turning. There was historic agreement to begin to reduce protection of agriculture and to phase out exceptions in garments and textiles. There was also another development of historical significance. Exempting developing countries from the obligation to liberalize at the same speed as everyone was enshrined for the first time in binding legal obligations in the Agreement on Agriculture.

The membership of the WTO in this period also rapidly expanded – by around 50 percent – mostly they were developing countries, and mostly African. The result was that calls to give developing countries special terms in WTO trade agreements started to gain greater weight in the WTO.

The rich countries gave the idea of exemptions for developing countries credence. Calling the Round of trade negotiations launched at Doha in 2001 the "Development Round" did not help. This concept signaled the idea the WTO was about development, not trade liberalization.

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The EU announced an "Anything but Arms" initiative. It would remove barriers to trade from the poorest developing economies on everything but arms. The US did its bit. In the African Governance and Opportunity Act, it offered special access to US markets on a wide set of terms ranging from human rights to using US textiles. NGOs, Oxfam in particular, took up the call. "The WTO should be about preferences for developing countries" declared Oxfam. The subtext is clear. The WTO should deliver preferential access, not free trade.

The economic impact is clear to those who look at it. The World Bank and the WTO have produced studies that show protection in developing economies is now a bigger threat to growth than trade barriers in rich countries, even in agriculture. The effect of the failure of developing countries to liberalize, no matter what rich countries do, is obvious.

Developing countries have insisted in the current negotiations that the principle that they do not have to liberalize be given wider recognition. The EU and the US have concurred.

The core value of the WTO is in trouble. The aberrant value is now challenging the dominance of the core value. When the WTO no longer aims to liberalize everyone it has lost its core mission. It is time for corrective action.

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